



AGRICULTURAL TRADE IN THE 80's: POLICY AND PERSPECTIVES

by

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Agricultural trade is essential to the economic well-being of agricultural producers throughout the U.S. and to the U.S. economy.

Agricultural trade is important

To U.S. farmers. The continued growth of U.S. agriculture depends to a great extent on export trade. Income to U.S. farmers from exports is one-fourth of total cash receipts from marketings. One harvested acre in three produce for export. The ratio is higher for many commodities. Last year every other row of soybeans was exported, every third row of corn and 3 out of 5 acres of wheat. In addition, more than 1/3 of the cotton, tobacco, rice, cattle hides, and fat and tallow were sold abroad.

To the U.S. Balance of Payments. Farm product exports will amount to about \$37 billion this year. The U.S. agricultural trade surplus in 1980 will approach \$20 billion. U.S. agricultural trade has contributed a surplus of \$10 billion or more to the U.S. trade account for five consecutive years and these were years when non-agricultural exports have been in deficit. The rapid growth in the agricultural trade balance occurred at the same time spiraling import costs put heavy pressure on U.S. foreign exchange.

To Consumers. U.S. consumers pay relatively less for food than do foreign consumers. A high level of agricultural exports permits farmers to use their land and machinery with maximum efficiency, and this lowers unit costs and reduces the upward pressure on consumer food prices in the long term. By helping to stabilize the dollar, exports tend to reduce the cost of imports of food products and other items to the consumer.

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To Taxpayers. Exports lower the cost of government support programs for agriculture, thereby reducing taxpayer costs. Without export demand, the federal government would have to buy and store huge amounts of excess supplies or farmers would have to take out of production 110 million acres of cropland.

To Workers. More than 1.2 million full-time civilian jobs are dependent upon U.S. agricultural exports. For each \$1 added in farm exports another \$1 is added to the non-farm sector creating additional non-farm employment.

To Business. Farm exports generate additional farm income, which goes to buy operating equipment and supplies, and other consumer goods on which the economy is based.

BENEFITS OF U.S. AGRICULTURE

To Agricultural Efficiency. The United States has developed the most efficient agricultural system in the world. American farmers, working with abundant resources, advanced technology and various incentive systems, have been able to produce more than the American people could consume. Today, it takes only one farm operator to feed 77 Americans and even after Americans have been well fed, we still have abundant farm produce left to ship abroad.

To Making Food A Good Buy. At times, our productive capacity has been a mixed blessing. During periods of abundance it has created mountainous surpluses which often hurt farmers' incomes and proved burdensome to the national treasury. However, it has also meant the American consumer spending less of their income for food than people in any other country in the world. U.S. citizens on average use only 17 percent of their spendable income on food. In most of the developed world, consumers spend 20-30 percent of their after-tax dollars for food; in the LDC's, 50 percent or more is not uncommon. In addition, it has provided assurance to many nations that we can help them meet food emergencies and unexpected shortfalls in their food production.

To Improving the Farmer's Role in Society. Not only are U.S. farm exports important to our own economy, but we dominate international trade. The United States provides 60 percent of the world's feed grain exports, almost 85 percent of the soybeans, and half of the world's wheat exports and an abundance of other farm goods.

AGRICULTURAL TRADE: POLICY PERSPECTIVES

Trade is a two-way proposition. If a country expects to export its products, it must be willing to import products from abroad. Even in the face of this reality, some nations look for ways to expand exports and at the same time, reduce imports by imposing various kinds of trade barriers. Unfortunately, these conditions exist to some extent in the U.S.

Freer Trade Is Ideal. The ideal trade setting would be for every individual nation to specialize in what it can produce at the lowest relative cost and then trade with everyone else. In this way, all countries would have more goods and services than if each tried to produce a little of everything. For example, the U.S. could produce bananas to meet its needs, but this would require an elaborate system of greenhouses, say in Wyoming using Wyoming coal, which would make bananas much more expensive than when produced under natural tropical conditions. Instead Wyoming land and climate is better suited for wheat. We buy bananas and many other food items from tropical countries, so we save money and they save money by purchasing our wheat, corn, soybeans, etc.

Ideally, permitting each nation to specialize in those items for which it has a relative cost advantage and by encouraging trade between countries, the citizens of all nations achieve higher standards of living.

But Protectionism Is Growing. Broadly speaking, protectionism occurs when, through economic policies, any group of buyers or sellers become insulated from the full forces of competition. A tariff, sometimes called an import tax or duty, is a classic method of protectionism, although a variety of other methods,

such as quotas and minimum import prices, may be considered protectionism tools. If the logic behind free trade is so persuasive, why have most nations erected various kinds of barriers?

The major reasons for protectionism include

Infant Industries. One reason is to shield infant industries which need time to become established and grow. Some argue that developing nations, in general, need protectionist measures to provide them time for industrial development. But the U.S. record shows we have some mighty big infants.

Vested Interests of Producers. A variety of pressures for protectionism often arise because producer groups are more politically active and forceful than consumer groups. As a result, governments have often been more concerned about industries which stand to lose by imports rather than about consumers who stand to benefit.

Survival and growth are naturally strong incentives among producer groups, and undoubtedly, some industries would be affected if import restrictions were relaxed or eliminated. But when public interest would clearly be served by such actions, governments might ease the transition for these industries by assisting them during changeover periods to other employment. For instance, in the United States help is available to industries adversely affected by imports.

Self-sufficiency and National Security. Uncertainty about the world's economic, social and political climate has often led nations to take steps which insure the maintenance of defense industries and seek the ambitious national goals of self-sufficiency. When this occurs, a country attempts to supply all of its own needs for a certain product and limits importation from foreign sources. Generally, though, self-sufficiency comes only at considerable cost to consumers in that country since domestic products are often more expensive than imported goods.

Greater world stability and relaxation of global tensions ease these drives for self-sufficiency and so contribute to the economic well-being of all nations.

Unfair Trade Policy. Most trading nations try to restrict imports of competitive goods when they think exporters are "dumping" excess production into their markets and disrupting normal trade by selling at abnormally low prices. The U.S. Food for Peace or PL 480 program was considered an unfair practice by many other countries. Some nations try to capture new markets by offering surplus goods internationally at prices lower than internal levels. Export subsidies, multiple pricing schemes, and tax advantages may be used for this purpose. The Japanese steel industry has long been accused of dumping steel into the U.S. market at below cost prices.

Consumers in importing nations typically favor buying world market goods at low prices. However, producer groups often secure duties, quotas, and import restrictions called "anti-dumping measures."

Protect Domestic Farm Programs. When market prices are supported above the world level some form of import control is required to prevent "being swamped" by goods from abroad. The variable levy applied to U.S. corn and wheat by the European Community is an example. Section 22 provisions in the Agricultural Act provide for the use of import protection today for U.S. price supported wool, milk, and tobacco. Beef producers have import quotas to limit competition.

CONSEQUENCES OF PROTECTIONISM

No matter why a protective action may be imposed, it is certain that economic effects will be felt within the nation and internationally. Consequences include

Retaliation. The most dramatic consequence of increasing protection can be seen in other countries which retaliate by raising their own trade barriers against products of the protecting nation. One of the most obvious examples was during the "Great Depression" when tariff increases in the United States were met by retaliatory tariff hikes in other nations. In a spiraling fashion, one set of protectionism hikes led to another round of tariff increases and continued retaliation until world trade fell nearly 50 percent during the early thirties. Do we want to repeat this course of action?

Most Efficient May Suffer. When one nation retaliates against another, the burden of reprisal falls on industries other than the one which gains the initial protection. Unfortunately, the protecting nation cannot select which sectors will take the counterblow; this is solely a decision of the retaliator. Revenge generally falls on export industries which are among the most efficient in the country. Farm products would be a prime candidate. As a result, more jobs may be lost and more resources idled from these "snowballing" protectionism measures.

The longrun result of protectionism is to reduce living levels, subsidize inefficient industries and punish those industries most efficient.

Cost Protection. A recent study showed that the effects of protectionist measures imposed by the United States between 1975 and 1977 resulted in a cost to consumers of \$660 million in sugar, \$1,250 million in carbon steel, near \$800 million in meat, \$500 million in television sets, and \$1,200 million in footwear.

In terms of the gain in jobs, this meant that the consumer cost per job protected was high. What was the cost of the loss in grain exports? We don't know!

If protection is seen as a temporary political response to the employment problems created for a small group, then clearly there are less inflationary and less costly forms of income support available.

ECONOMIC POWER OF AGRICULTURAL TRADE

Like a family budget, accounts of the American economy with respect to the rest of the world cannot remain out of balance indefinitely; we cannot buy more than we sell for very long without serious consequences.

Until the late 1960's, the United States was in the "favorable" position of selling more goods abroad than it purchased and so earned more money than it spent overseas. Late in the 1960's and early 1970's, however, this trend reversed and since then we have been spending more money abroad for goods than we have been earning from our foreign sales.

What Does a Deficit Mean to the U.S. Economy? First, the weaker dollar cannot buy as much in foreign markets, so it will take more dollars to buy the same quantity of foreign goods. For instance, we must pay more dollars to buy needed petroleum from OPEC nations. Secondly, increased exports and fewer and more expensive imports mean fewer goods and services are available to American consumers. This leads to inflation at home where we must pay more money for everything we buy.

American Agriculture - A Hedge on the Deficit. U.S. purchases of foreign non-agricultural goods have been expanding faster than their sales abroad, creating deep deficits for the non-farm sector. By contrast, the sale of American agricultural goods to foreign countries has registered a strong increase over our foreign agricultural purchases. As a result, U.S. farm products have contributed immensely to the nation's overall balance of trade. Efficiency of American agriculture helps make U.S. farm products competitive in world markets, and through exportation, agriculture makes an essential contribution to the American economy.

TRADE IN THE 80's

In spite of growing protectionism around the world, the physical volume of U.S. agricultural exports in the next few years is expected to trend upward at an average of 3 to 5 percent annually. But the rate of growth could vary substantially from year to year, far exceeding the 3 to 5 percent bounds. The current recessionary pressure, foreign exchange problems and debt positions of many countries are major impediments. Even so we expect the U.S. to increase its share of world grain markets from over 50 percent of the total today to near 65 percent by 1990. The kind of grain produced and limits to expansion possibilities in the major grain exporting nations of Australia, Argentina, Brazil and Canada have constraints that provide the U.S. the opportunity to expand farm exports substantially.

The fastest rate of growth in farm product exports is expected for corn and soybeans. Wheat exports are likely to expand at a more modest pace. Tobacco exports will continue as an important outlet for Ohio growers. Livestock product exports like hides, and livestock by-products will be of growing importance to the animal agriculture sector.

The rate of growth in exports for individual commodities will be essentially unstable. The uncertainty created by world weather patterns as well as the emergence of state trading are likely to generate fairly large year-to-year variations in export growth.

Although the Centrally Planned Economies may make large purchases from time to time, the largest and most dependable markets for U.S. agricultural exports will continue to be the industrial nations like Japan and the European Community. The developing countries are becoming increasingly important markets as their incomes per capita increase. But the LDC countries face major problems as their national debts have escalated due to world oil prices and they face repayment problems.

World food supplies are expected to increase about 2 percent per year. This rate of growth provides neither more food per person nor more food of higher quality. Serious regional food deficits are likely to occur in parts of Asia, Africa, and Latin America at various times.

Greater emphasis will be given to development assistance and internationally held grain reserves to help the low-income countries. U.S. food aid will continue to be a small share (under 1%) of total U.S. agricultural exports.

For these conclusions to be valid, one must assume that commercial trade will be encouraged and that nationalism and self-sufficiency in the U.S. and around the world will be thwarted somewhat by recognition that trade, including agricultural products, contributes to higher levels of living.

Imports of farm products on a volume basis will continue to grow slowly for both competitive and non-competitive products. The food and fiber sector contributes mightily to earning foreign exchange helping to alleviate our balance of trade and balance of payments situation. This encourages policies and programs to expand the quantities of U.S. farm products exported.

In summary, the challenges and opportunities for U.S. agriculture for the 80's are challenging. The combined growth in domestic and foreign demand means 15 to 20 percent growth in the total demand for U.S. produced farm products in the next decade. U.S. agriculture will be able to meet these needs. The increased output will come largely from increased yields though some expansion will occur in the acreage of cropland harvested. Also, a greater portion of the acreage harvested will be devoted to the grains exported.